UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ______________ TO _______________

Commission file number 1-13265

CENTERPOINT ENERGY RESOURCES CORP.

(Exact name of registrant as specified in its charter)

Delaware	76-0511406
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1111 Louisiana Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 207-3000
(Registrant's telephone number, including area code)

RELIANT ENERGY RESOURCES CORP.
(Former name, former address and former fiscal year, if changed since last report)

CENTERPOINT ENERGY RESOURCES CORP. MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM 10-Q WITH THE REDUCED DISCLOSURE FORMAT.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of November 9, 2002, all 1,000 shares of CenterPoint Energy Resources Corp. common stock were held by CenterPoint Energy, Inc.

CENTERPOINT ENERGY RESOURCES CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
STATEMENTS OF CONSOLIDATED OPERATIONS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
REVENUES	$ 668,903	$ 736,917	$ 4,051,754	$ 2,847,667
EXPENSES:				
Natural gas	414,217	480,332	3,118,665	1,925,437
Operation and maintenance	173,520	154,088	514,094	483,589
Depreciation	36,563	38,848	108,591	113,837
Amortization	15,433	3,548	46,246	10,811
Taxes other than income taxes	23,694	22,848	100,830	85,168
Total	663,427	699,664	3,888,426	2,618,842
OPERATING INCOME	5,476	37,253	163,328	228,825
OTHER INCOME (EXPENSE):				
Interest expense	(40,080)	(39,959)	(118,700)	(113,592)
Distribution on trust preferred securities	(7)	(6)	(21)	(19)
Other, net	1,323	352	13,293	6,206
Total	(38,764)	(39,613)	(105,428)	(107,405)
(LOSS) INCOME BEFORE INCOME TAXES	(33,288)	(2,360)	57,900	121,420
Income Tax (Benefit) Expense	(5,997)	3,032	38,448	49,896
NET (LOSS) INCOME	$ (27,291)	$ (5,392)	$ 19,452	$ 71,524

See Notes to CERC's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	DECEMBER 31, 2001	SEPTEMBER 30, 2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,425	$ 97,271
Accounts and notes receivable, principally customers, (net of allowance for doubtful accounts of $33,047 and $21,339, respectively)	479,279	288,978
Accrued unbilled revenue	188,425	42,272
Accounts and notes receivable - affiliated companies, net	39,393	--
Materials and supplies	33,276	32,523
Fuel and petroleum products	111,193	114,290
Non-trading derivative assets	6,996	29,483
Prepaid expenses	7,550	22,162
Other	10,382	43,102
Total current assets	892,919	670,081
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	3,669,037	3,815,552
Less accumulated depreciation	(521,960)	(608,259)
Property, plant and equipment, net	3,147,077	3,207,293
OTHER ASSETS:		
Goodwill	1,740,510	1,740,510
Other intangibles, net	17,980	19,479
Prepaid pension asset	94,022	84,564
Non-trading derivative assets	2,234	4,666
Notes receivable - affiliated companies, net	--	5,252
Other	94,221	62,405
Total other assets	1,948,967	1,916,876
TOTAL ASSETS	$ 5,988,963	$ 5,794,250

See Notes to CERC's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONSOLIDATED BALANCE SHEETS -- (CONTINUED)
(THOUSANDS OF DOLLARS)
(UNAUDITED)

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 2001	SEPTEMBER 30, 2002
CURRENT LIABILITIES:		
Short-term borrowings	$ 345,527	$ 106,160
Accounts payable, principally trade	267,649	337,557
Accounts and notes payable - affiliated companies, net	--	352,413
Interest accrued	44,795	36,332
Taxes accrued	53,693	--
Customer deposits	52,089	52,804
Non-trading derivative liabilities	59,075	21,019
Other	95,180	95,961
Total current liabilities	918,008	1,002,246
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	555,387	546,328
Benefit obligations	177,559	170,319
Non-trading derivative liabilities	9,826	3,713
Notes payable - affiliated companies, net	27,311	--
Other	152,696	137,626
Total other liabilities	922,779	857,986
LONG-TERM DEBT	1,927,039	1,950,989
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 11)		
CERC OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF CERC	555	508
STOCKHOLDER'S EQUITY:		
Common stock	1	1
Paid-in capital	2,255,395	1,982,488
Retained earnings (deficit)	1,837	(3,732)
Accumulated other comprehensive (loss) income	(36,651)	3,764
Total stockholder's equity	2,220,582	1,982,521
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 5,988,963	$ 5,794,250

See Notes to CERC's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 19,452	$ 71,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	154,837	124,648
Deferred income taxes	(8,618)	(24,164)
Changes in other assets and liabilities:		
Accounts and notes receivable, net	822,602	353,825
Accounts receivable/payable, affiliates	(40,694)	(80,695)
Inventory	(61,813)	(2,344)
Accounts payable	(482,023)	69,908
Fuel cost recovery	53,741	19,202
Interest and taxes accrued	(110,050)	(79,527)
Net non-trading derivative assets and liabilities	13,864	(55,238)
Other current assets	1,476	(47,359)
Other current liabilities	(12,707)	1,496
Other assets	(30,009)	8,848
Other liabilities	29,611	19,387
Other, net	46,201	--
Net cash provided by operating activities	395,870	379,511
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(199,092)	(188,198)
Other, net	(21,550)	15,059
Net cash used in investing activities	(220,642)	(173,139)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(155,455)	(6,633)
Proceeds from long-term debt	544,632	--
Decrease in short-term borrowings, net	(351,692)	(239,367)
(Decrease) increase in notes with affiliates, net	(61,107)	122,400
Dividend	(400,000)	--
Capital contribution	236,000	--
Other, net	(4,030)	(1,926)
Net cash used in financing activities	(191,652)	(125,526)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(16,424)	80,846
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	22,576	16,425
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 6,152	$ 97,271
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest	$ 121,026	$ 120,244
Income taxes	116,237	155,521

See Notes to CERC's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Included in this Quarterly Report on Form 10-Q (Form 10-Q) for CenterPoint Energy Resources Corp. (CERC Corp.), formerly Reliant Energy Resources Corp. (RERC Corp.), together with its subsidiaries (CERC), are CERC's consolidated interim financial statements and notes (Interim Financial Statements) including its wholly owned and majority owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the amended Annual Report on Form 10-K/A (Amendment No. 1) of RERC Corp. (RERC Corp. Form 10-K/A) for the year ended December 31, 2001, which was filed with the Securities and Exchange Commission (SEC) on July 15, 2002, and the Quarterly Reports on Form 10-Q of RERC Corp. for the quarters ended March 31, 2002 and June 30, 2002.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CERC's Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in CERC's Statements of Consolidated Operations are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (a) seasonal variations in energy consumption, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to CERC's presentation of financial statements in the current year. These reclassifications do not affect earnings of CERC.

The following notes to the consolidated financial statements in the RERC Corp. Form 10-K/A relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference:

Notes to Consolidated Financial Statements (RERC Corp. 10-K/A Notes): Note 3(f) (Regulatory Assets), Note 5 (Derivative Instruments) and Note 10 (Commitments and Contingencies).

For information regarding environmental matters and legal proceedings, see Note 11.

(2) NEW ACCOUNTING PRONOUNCEMENTS

See Note 3 for a discussion of CERC's adoption of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), on January 1, 2001. See Note 6 for a discussion of CERC's adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142) on January 1, 2002.

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting SFAS No. 141 "Business Combinations" (SFAS No. 141). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. CERC adopted the provisions of the statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002. The adoption of SFAS No. 141 did not have a material impact on CERC's historical results of operations or financial position.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of a liability for an asset retirement legal obligation to be recognized in the period in which it is incurred. When the liability is initially recorded, associated costs are capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value

each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. CERC plans to adopt SFAS No. 143 on January 1, 2003, and is in the process of determining the effect of adoption on its consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 did not materially change the methods used by CERC to measure impairment losses on long-lived assets, but may result in more future dispositions being reported as discontinued operations than would previously have been permitted. CERC adopted SFAS No. 144 on January 1, 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. CERC has applied this guidance prospectively.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for costs associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. CERC will apply the provisions of SFAS No. 146 to all exit or disposal activities initiated after December 31, 2002.

(3) DERIVATIVE INSTRUMENTS

Adoption of SFAS No. 133 on January 1, 2001 resulted in a cumulative after-tax increase in accumulated other comprehensive income of $38 million.

Cash Flow Hedges. During the nine months ended September 30, 2002, there was no hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as cash flow hedges. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. During the nine months ended September 30, 2002, a $0.9 million deferred loss was recognized in earnings as a result of the discontinuance of a cash flow hedge because it was no longer probable that the forecasted transaction would occur due to credit problems of a customer. As of September 30, 2002, CERC expects a gain of $8 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

(4) RELIANT ENERGY'S SEPARATION PLAN

In December 2000, Reliant Energy, Incorporated (Reliant Energy) transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources), which, at the time, was a wholly owned subsidiary. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger pursuant to which the following occurred on August 31, 2002 (which is referred to herein as the Restructuring):

- CenterPoint Energy, Inc. (CenterPoint Energy) became the holding company for the Reliant Energy group of companies;

- Reliant Energy and its subsidiaries, including CERC, became subsidiaries of CenterPoint Energy; and

- each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock.

After the Restructuring, CenterPoint Energy distributed the shares of common stock of Reliant Resources that it owned to CenterPoint Energy's shareholders (which is referred to herein as the Distribution) in a tax-free transaction.

Contemporaneous with the Restructuring, CenterPoint Energy registered and became subject, with its subsidiaries, to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (1935 Act). The 1935 Act directs the SEC to regulate, among other things, financings, sales or acquisitions of assets and intra-system transactions.

In connection with the Restructuring, in order to enable CenterPoint Energy to satisfy the requirements for an exemption from regulation as a registered holding company under the 1935 Act, CenterPoint Energy has obtained authority from its state regulators to divide the gas distribution businesses conducted by CERC Corp.'s three unincorporated gas distribution divisions, CenterPoint Energy Entex, CenterPoint Energy Arkla and CenterPoint Energy Minnegasco, among three separate entities. The entity that would hold the CenterPoint Energy Entex assets would also hold ownership of CERC Corp.'s natural gas pipelines and gathering business. CenterPoint Energy must also receive approval of these transactions under the 1935 Act. Although CERC Corp. expects this business restructuring of CERC Corp. can be completed, CERC Corp. can provide no assurance that this will, in fact, occur, or that CenterPoint Energy will ultimately be exempt from registration under the 1935 Act. For further information on the CERC Corp. restructuring, see "Our Business -- Status of Business Separation" in Item 1 of the RERC Corp. Form 10-K/A, which is incorporated by reference herein.

(5) REGULATORY MATTERS

(a) Arkansas Rate Case.

In November 2001, CenterPoint Energy Arkla (Arkla) filed a rate request in Arkansas seeking rates to yield approximately $47 million in additional annual gross revenue. On August 9, 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) which will result in an increase in base rates of approximately $32 million annually. In addition, the APSC approved a gas main replacement surcharge which is expected to provide $2 million of additional gross revenue in 2003 and additional amounts in subsequent years. The new rates included in the final settlement were effective with all bills rendered on and after September 21, 2002.

(b) Oklahoma Rate Case.

On May 28, 2002, Arkla filed a request in Oklahoma to increase its base rates by $13.7 million annually. In filed testimony, the Oklahoma Corporate Commission staff and the Oklahoma Attorney General have recommended annual base rate increases of $4.6 million and $7.5 million, respectively. Completion of the case is expected sometime during late December 2002 with new rates becoming effective in January 2003.

(c) City of Tyler, Texas Hearing on Gas Costs.

By letter to CenterPoint Energy Entex (Entex) dated July 31, 2002, the City of Tyler, Texas expressed "serious concerns" regarding amounts that Entex has paid for gas purchased for resale to residential and small commercial

customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the City and filed with both the City and the Railroad Commission of Texas. In the July 31 letter, the City forwarded various computations of what it believes to be excessive costs ranging from approximately $2.8 million to $39.2 million. The City had called a hearing for September 25, 2002. The Company filed a Petition for Injunction and Declaratory Relief in Travis County District Court and a Petition for a Declaratory Order at the Railroad Commission of Texas. In response to these filings, the City agreed to indefinitely postpone its hearing. As reflected in its petitions, the Company believes (i) that all gas costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs, (ii) that the City has no legal or factual support for the statements made in its letter and (iii) that the City has no authority to require or demand refunds of any amounts Entex has charged its customers in the City of Tyler.

(6) GOODWILL AND INTANGIBLES

In July 2001, the FASB issued SFAS No. 142, which provides for a nonamortization approach, whereby goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead will be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. On January 1, 2002, CERC adopted the provisions of the statement which apply to goodwill and intangible assets acquired prior to June 30, 2001.

With the adoption of SFAS No. 142, CERC ceased amortization of goodwill as of January 1, 2002. A reconciliation of previously reported net income to the amounts adjusted for the exclusion of goodwill amortization follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Reported net (loss) income	$ (27)	$ (5)	$ 19	$ 72
Add: Goodwill amortization, net of tax ...	12	--	37	--
Adjusted net (loss) income	$ (15)	$ (5)	$ 56	$ 72

The components of CERC's other intangible assets consist of the following:

DECEMBER 31, 2001		SEPTEMBER 30, 2002	

(IN MILLIONS)	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Land Use Rights ...	$ 7	$ (2)	$ 7	$ (2)
Other	15	(2)	17	(3)
Total	$ 22	$ (4)	$ 24	$ (5)

CERC recognizes specifically identifiable intangibles when specific rights and contracts are acquired. CERC amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives. CERC has no intangible assets with indefinite lives recorded as of September 30, 2002. CERC amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 47 to 75 years for land rights and 4 to 25 years for other intangibles.

Amortization expense for other intangibles for the three and nine months ended September 30, 2001 was $0.2 million and $0.5 million, respectively. Amortization expense for other intangibles for the three and nine months ended September 30, 2002 was $0.3 million and $0.8 million, respectively. Estimated amortization expense for the remainder of 2002 is approximately $0.3 million and is approximately $2 million per year for the five succeeding fiscal years.

Goodwill as of September 30, 2002 by reportable business segment is as follows (in millions):

	AS OF SEPTEMBER 30, 2002
Natural Gas Distribution	$ 1,085
Pipelines and Gathering	601
Other Operations	54
Total	$ 1,740

CERC completed its review of goodwill impairment during the second quarter of 2002 for its reporting units pursuant to SFAS No. 142. No impairment was indicated as a result of this assessment.

(7) SHORT-TERM BORROWINGS

CERC Corp. has a receivables facility under which it sells certain of its and its subsidiaries' customer accounts receivable. Advances under this facility are reflected in the Consolidated Balance Sheets as short-term debt. In the first quarter of 2002, CERC Corp. reduced this trade receivables facility from $350 million to $150 million. Borrowings under the receivables facility aggregating $196 million were repaid in January 2002 with proceeds from the issuance of commercial paper under CERC Corp.'s $350 million revolving credit facility and from the liquidation of short-term investments. The $150 million CERC Corp. receivables facility expires on November 15, 2002. CERC Corp. is currently in negotiations to replace it with a one-year receivables facility. There can be no assurance that CERC Corp. will be successful in replacing this facility or that the terms and conditions of any such facility would not be less advantageous to CERC Corp. than the terms and conditions of the existing receivables facility. At September 30, 2002, CERC Corp. had $2.5 million of letters of credit outstanding under the revolving credit facility. CERC had no commercial paper or bank loans outstanding at September 30, 2002. The $350 million CERC Corp. revolving credit facility expires March 31, 2003. CERC Corp. expects to refinance borrowings under the revolving credit facility on or prior to the March 31, 2003 expiration date of the facility. Refinancing may be accomplished through the issuance of long-term debt, short-term debt or a combination. See Note 10 for discussion of borrowing under the revolving credit facility subsequent to September 30, 2002.

The weighted average interest rate on short-term borrowings as of December 31, 2001 and September 30, 2002 was 2.04% and 1.75%, respectively.

(8) TRUST PREFERRED SECURITIES

A statutory business trust created by CERC Corp. (RERC Trust) has issued convertible trust preferred securities, the terms of which, and the related series of convertible junior subordinated debentures, are described below (in millions):

AGGREGATE LIQUIDATION AMOUNT ---- ---------- ---------- - MANDATORY DECEMBER 31, SEPTEMBER 30, DISTRIBUTION RATE/ REDEMPTION DATE/ JUNIOR SUBORDINATED TRUST 2001 2002 INTEREST RATE MATURITY DATE DEBENTURES - --------- ---------- --- -------

----- -----
-------- --

----- -----

-- RERC
Trust $ 1 $
1 6.25%
June 2026
6.25%
Convertible
Junior
Subordinated
Debentures

For additional information regarding the convertible preferred securities, see Note 7 to the RERC Corp. 10-K/A Notes, which is incorporated herein by reference. The sole asset of the trust consists of convertible junior subordinated debentures of CERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities, and a principal amount corresponding to the common and convertible preferred securities issued by the trust.

(9) COMPREHENSIVE INCOME (LOSS)

The following table summarizes the components of total comprehensive income (loss):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Net (loss) income	$ (27)	$ (5)	$ 19	$ 72
Other comprehensive (loss) income:				
Additional minimum non-qualified pension liability adjustment ...	(3)	--	1	--
Cumulative effect of adoption of SFAS No. 133	--	--	38	--
Net deferred (loss) gain from cash flow hedges	(7)	5	(66)	41
Reclassification of deferred gain on derivatives realized in net income	(23)	(2)	(38)	(1)
Other comprehensive (loss) income	(33)	3	(65)	40
Comprehensive (loss) income	$ (60)	$ (2)	$ (46)	$ 112

(10) RELATED PARTY TRANSACTIONS

From time to time, CERC has advanced money to, or borrowed money from, CenterPoint Energy or its subsidiaries. As of December 31, 2001, CERC had net short-term receivables, included in accounts and notes receivable-affiliated companies, of $132 million, partially offset by net accounts payable of $93 million. As of September 30, 2002, CERC had net short-term borrowings, included in accounts and notes payable-affiliated companies, of $340 million and net accounts payable of $12 million. As of December 31, 2001, CERC had net long-term borrowings, included in notes payable-affiliated companies, totaling $27 million. As of September 30, 2002, CERC had net long-term receivables, included in notes receivable-affiliated companies, of $5 million. In August 2002, CERC paid a dividend of $350 million to CenterPoint Energy in the form of an intercompany note payable. In October 2002, CERC paid the intercompany note payable. Substantially all of the funds for repayment were obtained from borrowings under CERC Corp.'s revolving credit facility. For the three and nine months ended September 30, 2002, CERC had net interest expense related to affiliate borrowings of $2 million and $1 million, respectively.

In 2001 and 2002, CERC supplied natural gas to Reliant Energy Services, Inc. (RES), a subsidiary of Reliant Resources. For the three and nine months ended September 30, 2001, the sales and services by CERC to CenterPoint Energy and its affiliates totaled $15 million and $148 million, respectively. For the three and nine months ended September 30, 2002, the sales and services by CERC to CenterPoint Energy and its affiliates totaled $24 million and $66 million, respectively. Purchases of natural gas by CERC from CenterPoint Energy and its affiliates were $85 million and $516 million for the three and nine months ended September 30, 2001, respectively, and $28 million and $186 million for the three and nine months ended September 30, 2002, respectively.

CenterPoint Energy provides some corporate services to CERC. The costs of services have been directly charged to CERC using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment, and proportionate corporate formulas based on assets, operating expenses and employees. These charges are not necessarily indicative of what would have been incurred had CERC not been an affiliate. Amounts charged to CERC for these services were $18 million and $55 million for the three and nine months ended September 30, 2001, respectively, and $24 million and $76 million for the three and nine months ended September 30, 2002, respectively, and are included primarily in operation and maintenance expenses.

The 1935 Act generally prohibits borrowings by CenterPoint Energy from its subsidiaries, including CERC.

(11) ENVIRONMENTAL MATTERS AND LEGAL PROCEEDINGS

(a) Environmental Matters.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company, Inc. (REGT), Reliant Energy Pipeline Services, Inc., RERC, RES, other Reliant Energy entities and third parties (Docket No. 460, 916-Div. "B"), in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented five times. As of July 29, 2002, there were 649 plaintiffs, a majority of whom are Louisiana residents. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts. Additionally on April 4, 2002, two plaintiffs filed a separate suit with identical allegations against the same parties (Docket No. 465, 944-Div. "B") in the same court.

The suits allege that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer which lies beneath property owned or leased by certain of the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility." This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution. This site was originally leased and operated by predecessors of REGT in the late 1940s and was operated until Arkansas Louisiana Gas Company ceased operations of the plant in the late 1970s.

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of September 30, 2002, CERC is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

Manufactured Gas Plant Sites. CERC and its predecessors operated a manufactured gas plant (MGP) until 1960 adjacent to the Mississippi River in Minnesota, formerly known as Minneapolis Gas Works (MGW). CERC has substantially completed remediation of the main site other than ongoing water monitoring and treatment. The manufactured gas was stored in separate holders. CERC is negotiating clean-up of one such holder. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, CERC believes that two were neither owned nor operated by CERC. CERC believes it has no liability with respect to the sites it neither owned nor operated.

At September 30, 2002, CERC had accrued $23 million for remediation of the Minnesota sites. At September 30, 2002, the estimated range of possible remediation costs was $10 million to $49 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. CERC has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for other sites. Based on current information, CERC has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Other Minnesota Matters. At September 30, 2002, CERC had recorded accruals of $5 million for other environmental matters in Minnesota for which remediation may be required. At September 30, 2002, the estimated range of possible remediation costs was $3 million to $8 million.

Mercury Contamination. CERC's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by CERC at some sites in the past, and CERC has conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by CERC and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, CERC believes that the costs of any remediation of these sites will not be material to CERC's financial position, results of operations or cash flows.

Potentially Responsible Party Notifications. From time to time CERC has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Considering the information currently known about such sites and the involvement of CERC in activities at these sites, CERC does not believe that these matters will have a material adverse effect on CERC's financial position, results of operations or cash flows.

(b) Other Legal Matters.

Natural Gas Measurement Lawsuits. In 1997, a suit was filed under the Federal False Claim Act against RERC, REGT and Reliant Energy Field Services, Inc. (REFS) alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case was consolidated, together with the other similar False Claim Act cases filed and transferred to the District of Wyoming. Motions to dismiss were denied. The defendants intend to vigorously contest this case.

In addition, RERC, REGT, REFS and Mississippi River Transmission Corporation (MRT) have been named as defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants, including certain Reliant Energy entities, for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Plaintiffs initially sued RES, but that company was dismissed without prejudice on June 8, 2001. Other Reliant Energy entities that were misnamed or duplicative have also been dismissed. MRT and REFS have filed motions to dismiss for lack of personal jurisdiction and are currently responding to discovery on personal jurisdiction. All of the defendants have joined in a motion to dismiss.

The defendants plan to raise significant affirmative defenses based on the terms of the applicable contracts, as well as on the broad waivers and releases in take or pay settlements that were granted by the producer-sellers of natural gas who are putative class members.

Other Proceedings. On October 2, 2002, John and Heather Maher filed a suit in the 23rd Judicial District Court in Wharton County, Texas, against CenterPoint Energy, CERC, Entex Gas Marketing Company, and others alleging fraud, violations of the Texas Deceptive Trade Practices Act, violations of the Texas Utility Code and civil conspiracy. The plaintiffs seek class certification, but no class has been certified at this time. The plaintiffs allege that defendants inflated the prices charged to consumers for the sale of natural gas for residential purposes. The plaintiffs seek actual, exemplary and statutory damages and civil penalties. CenterPoint Energy has been served but has not yet filed an answer. The ultimate outcome of the lawsuit cannot be predicted with any degree of certainty at this time. However, CenterPoint Energy believes, based on its analysis to date of the claims asserted in these lawsuits and the underlying facts, that resolution of these lawsuits will not have a material adverse effect on its financial condition, results of operations, or cash flows.

Other. CERC is a party to litigation (other than that specifically noted) which arises in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes

that the effects, if any, from the disposition of these matters will not have a material adverse effect on CERC's financial position, results of operations or cash flows.

(12) REPORTABLE BUSINESS SEGMENTS

Because CERC Corp. is a wholly owned subsidiary of CenterPoint Energy, CERC's determination of reportable business segments considers the strategic operating units under which CenterPoint Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments.

CERC's reportable business segments include the following: Natural Gas Distribution, Pipelines and Gathering and Other Operations. For descriptions of the reportable business segments, see Note 13 to the RERC Corp. 10-K/A Notes, which is incorporated herein by reference.

Beginning in the first quarter of 2002, CERC began to evaluate performance on an earnings (loss) before interest expense, distribution on trust preferred securities and income taxes (EBIT) basis. Prior to 2002, CERC evaluated performance on the basis of operating income. EBIT, as defined, is shown because CERC believes it is a measure of financial performance that may be used as a means to analyze and compare companies on the basis of operating performance. CERC expects that some analysts and investors will want to review this measure when evaluating CERC. EBIT is not defined under accounting principles generally accepted in the United States (GAAP), and should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with GAAP and is not indicative of operating income from operations as determined under GAAP. Reportable business segments from previous years have been restated to conform to the 2002 presentation. Additionally, CERC's computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion.

The following table summarizes financial data for the reportable business segments:

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001	REVENUES FROM THIRD PARTIES	NET INTERSEGMENT AND AFFILIATES REVENUES	EBIT
	(IN MILLIONS)		
Natural Gas Distribution	$ 603	$ 5	$ (20)
Pipelines and Gathering	51	41	34
Other Operations	--	--	(4)
Sales to Affiliates	15	--	--
Eliminations	--	(46)	(3)
Consolidated	$ 669	$ --	$ 7

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002	REVENUES FROM THIRD PARTIES	NET INTERSEGMENT AND AFFILIATES REVENUES	EBIT
	(IN		

MILLIONS) Natural
Gas Distribution
...... $ 664 $ 17
$ -- Pipelines
and Gathering
.... 49 39 43
Other Operations
.... --
-- (2) Sales to
Affiliates
.... 24 --
-- Eliminations
....
-- (56) (4) -----
---------- ------
--------- -------

Consolidated
....
$ 737 $ -- $ 37
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===============
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AS OF DECEMBER 31, FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 2001 ------- ----------------- ----------------- ----------- ----- ---------- REVENUES FROM NET THIRD PARTIES INTERSEGMENT AND AFFILIATES REVENUES EBIT TOTAL ASSETS ---- ----------- ----- ---------- ------ --------- ------- -------- (IN MILLIONS) Natural Gas Distribution ...... $ 3,728 $ 91 $ 76 $ 3,732 Pipelines and Gathering .... 176 142 107 2,361 Other Operations .... -- -- (3) 495 Sales to Affiliates .... 148 - - -- -- Eliminations .... -- (233) (4) (599) ----------- ---- ----------- --- ------------ -- ------------- - Consolidated .... $ 4,052 $ -- $ 176 $ 5,989 =============== =============== =============== ===============

AS OF SEPTEMBER 30, FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 2002 ------- ----------------- ----------------- ----------- ----- ---------- REVENUES FROM NET THIRD PARTIES INTERSEGMENT AND AFFILIATES REVENUES EBIT TOTAL ASSETS ---- ----------- ----- ---------- ------ --------- ------- -------- (IN MILLIONS) Natural Gas Distribution ...... $ 2,621 $ 37 $ 124 $ 3,608 Pipelines and Gathering .... 161 121 122 2,409 Other Operations .... -- -- (2) 134 Sales to Affiliates

....	66	--	--	--
Eliminations	--	(158)	(9)	(357)
Consolidated	$ 2,848	$ --	$ 235	$ 5,794

Reconciliation of Operating Income to EBIT and EBIT to Net Income:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Income	$ 5	$ 37	$ 163	$ 229
Other Income, net	2	--	13	6
Earnings Before Interest and Taxes ..	7	37	176	235
Interest Expense	(40)	(39)	(119)	(113)
(Loss) Income Before Income Taxes ...	(33)	(2)	57	122
Income Tax (Benefit) Expense	(6)	3	38	50
Net (Loss) Income	$ (27)	$ (5)	$ 19	$ 72

ITEM 2. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES

The following narrative analysis should be read in combination with CERC Corp.'s Interim Financial Statements and notes contained in this Form 10-Q.

In December 2000, Reliant Energy, Incorporated (Reliant Energy) transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources), which, at the time, was a wholly owned subsidiary of Reliant Energy. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger pursuant to which the following occurred on August 31, 2002 (which is referred to herein as the Restructuring):

- CenterPoint Energy, Inc. (CenterPoint Energy) became the holding company for the Reliant Energy group of companies;

- Reliant Energy and its subsidiaries, including CERC, became subsidiaries of CenterPoint Energy; and

- each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock.

After the Restructuring, CenterPoint Energy distributed the shares of common stock of Reliant Resources that it owned to CenterPoint Energy's shareholders (which is referred to herein as the Distribution) in a tax-free transaction.

Contemporaneous with the Restructuring, CenterPoint Energy registered and became subject, with its subsidiaries, to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (1935 Act). The 1935 Act directs the Securities and Exchange Commission (SEC) to regulate, among other things, financings, sales or acquisitions of assets and intra-system transactions.

In connection with the Restructuring, in order to enable CenterPoint Energy to satisfy the requirements for an exemption from regulation as a registered holding company under the 1935 Act, CenterPoint Energy has obtained authority from its state regulators to divide the gas distribution businesses conducted by CERC Corp.'s three unincorporated gas distribution divisions, CenterPoint Energy Entex, CenterPoint Energy Arkla and CenterPoint Energy Minnegasco, among three separate entities. The entity that would hold the CenterPoint Energy Entex assets would also hold ownership of CERC Corp.'s natural gas pipelines and gathering business. CenterPoint Energy must also receive approval of these transactions under the 1935 Act. Although CERC Corp. expects this business restructuring of CERC Corp. may be completed, CERC Corp. can provide no assurance that this will, in fact, occur, or that CenterPoint Energy will ultimately be exempt from registration under the 1935 Act. For further information on the CERC Corp. restructuring, see "Our Business -- Status of Business Separation" in Item 1 of the RERC Corp. Form 10-K/A, which is incorporated by reference herein.

CERC Corp. meets the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and is therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, CERC Corp. has omitted from this report the information called for by Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Changes in Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in the amount of revenue and expense items of CERC between the three months and nine months ended September 30, 2002 and the three months and nine months ended September 30, 2001. Reference is made to Management's Narrative Analysis of the Results of Operations of Reliant Energy Resources Corp. and its Subsidiaries in Item 7 of the RERC Corp. Form 10-K/A, which is incorporated by reference herein.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 669	$ 737	$ 4,052	$ 2,848
Operating Expenses	(664)	(700)	(3,889)	(2,619)
Operating Income, net	5	37	163	229
Other Income, net	2	--	13	6
Earnings Before Interest and Taxes	7	37	176	235
Interest Expense	(40)	(39)	(119)	(113)
Income (Loss) Before Income Taxes	(33)	(2)	57	122
Income Tax (Benefit) Expense	(6)	3	38	50
Net (Loss) Income	$ (27)	$ (5)	$ 19	$ 72

For the third quarter of 2002, CERC's net loss was $5 million compared to a net loss of $27 million for the same period in 2001. The $22 million decrease was primarily due to:

- a significant reduction in bad debt expense in the Natural Gas Distribution business segment as a result of improved collections and lower gas prices in 2002; and

- decreased amortization expense of approximately $12 million as a result of the discontinuance of goodwill amortization in accordance with Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Intangible Assets" (SFAS No. 142).

For the first nine months of 2002, CERC's net income was $72 million compared to net income of $19 million for the same period in 2001. The $53 million increase was primarily due to:

- a significant reduction in bad debt expense in the Natural Gas Distribution business segment as a result of improved collections and lower gas prices in 2002;

- decreased amortization expense of approximately $37 million as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as discussed above; and

- changes in estimates of unbilled revenues and deferred gas costs which negatively impacted the second quarter of 2001.

The above items were partially offset by milder weather during the first nine months of 2002 compared to 2001.

CERC's operating revenues for the three and nine months ended September 30, 2002, were $0.7 billion and $2.8 billion, respectively, compared to $0.7 billion and $4.1 billion, respectively, for the same periods in 2001. The year to date decrease was primarily due to significantly milder weather and lower gas prices in 2002 compared to 2001, partially offset by customer growth in 2002.

CERC's operating expenses for the three and nine months ended September 30, 2002, were $0.7 billion and $2.6 billion, respectively, compared to $0.7 billion and $3.9 billion, respectively, for the same periods in 2001. The year to date decrease was primarily due to the same reasons for the decreases in revenues discussed above.

CERC recorded income tax expense of $3 million on a pre-tax loss of $2 million for the three months ended September 30, 2002, versus a tax benefit of $6 million on a pre-tax loss of $33 million for the three months ended September 30, 2001. The increase in tax expense is the result of higher state tax expense.

CERC's effective tax rate for the first nine months of 2002 was 41% compared to 66% for the same period in 2001. The decrease in the effective rate was primarily the result of an increase in pre-tax income, which diluted the

impact of the permanent items on CERC's effective tax rate, and a decrease in the effective state tax rate on CERC's pre-tax income.

Seasonality and Other Factors. CERC's results of operations are affected by seasonal fluctuations in the demand for and, to a lesser extent, the price of natural gas. CERC's results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates charged by CERC, competition in CERC's various business operations, debt service costs and income tax expense.

For a discussion of certain other factors that may affect CERC's future earnings, please read "Management's Narrative Analysis of Financial Condition and Results of Operations of Reliant Energy Resources Corp. and its Consolidated Subsidiaries -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of RERC Operations" in the RERC Form 10-K/A, which information is incorporated herein by reference.

LIQUIDITY

Long-Term Debt and Trust Preferred Securities. Of the $1.95 billion of CERC Corp. debt outstanding at September 30, 2002, approximately $1.8 billion principal amount is senior and unsecured and, approximately $79.4 million principal amount with a final maturity of 2012 is subordinated. In addition, the aggregate principal amount of CERC Corp. debentures relating to the trust preferred securities, issued by a statutory business-trust subsidiary of CERC Corp., are subordinated.

The issuance of secured debt by CERC Corp. is limited under an indenture between CERC Corp. (successor to Arkla, Inc.) and Citibank N.A. dated December 1, 1986 relating to approximately $145 million principal amount of debt maturing in 2006 which provides for equal and ratable security for such debt in the event debt secured by "principal property" (as defined in the indenture) is issued. Other than this indenture, agreements relating to the issuance of long-term debt do not restrict the issuance of secured debt. Additionally, our $350 million credit agreement expiring in March 2003 prohibits the issuance of debt secured by "principal property". The definition is similar to that contained in the indenture described above. Finally, our ability to issue secured debt may be limited under the terms of agreements entered into by CenterPoint Energy.

Short-Term Debt. During the balance of 2002 and 2003, our bank facilities are scheduled to terminate on the dates indicated below.

TYPE OF FACILITY	TERMINATION DATE	TOTAL COMMITTED CREDIT
		(in millions)
Revolver	March 31, 2003	$ 350
Receivables	November 15, 2002	150
		$ 500

The revolving credit facility contains various business and financial covenants including a covenant restricting CERC Corp.'s debt as a percentage of its total capitalization to 55%. At September 30, 2002, CERC Corp.'s debt to total capitalization ratio was 53.7%.

We expect to refinance borrowings under the revolving credit facility at CERC Corp. on or prior to the March 31, 2003 expiration date of the facility. Refinancing may be accomplished through the issuance of long-term debt, short-term debt or a combination.

CERC Corp. is currently in negotiations to replace the $150 million receivables facility with a new facility having a one-year term. There can be no assurance that CERC Corp. will be successful in replacing this facility or that

the terms and conditions of any such facility would not be less advantageous to CERC Corp. than the terms and conditions of the existing receivables facility.

Capital Requirements. We anticipate investing up to $1.3 billion in capital expenditures in the years 2002 through 2006, including $188 million expended during the nine months ended September 30, 2002. We anticipate capital expenditures to be approximately $259 million and $267 million in 2002 and 2003, respectively.

Cash Requirements in 2002 and 2003. Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs. Our principal cash requirements during the fourth quarter of 2002 include the following:

- o approximately $71 million of capital expenditures;

- o the repurchase of $120 million of receivables under a $150 million receivables facility or the cessation of sales of receivables unless a replacement facility is arranged; and

Our principal cash requirements during 2003 include the following:

- o approximately $267 million of capital expenditures;

- o the replacement of a $350 million bank facility or the refinancing of borrowings under such facility; and

- o remarketing or refinancing of $500 million of debt.

We expect to meet our capital requirements with cash flows from operations, short-term borrowings and proceeds from debt offerings. We believe that our current liquidity, along with anticipated cash flows from operations and proceeds from short-term borrowings, including the renewal, extension or replacement of existing bank facilities, and anticipated sales of securities in the capital markets will be sufficient to meet our cash needs.

At September 30, 2002, $50 million principal amount of debt securities was registered with the SEC. These debt securities may be sold in a public offering. The amount of any debt issuance, whether registered or unregistered, is expected to be affected by the market's perception of our creditworthiness, market conditions and factors affecting our industry. Proceeds from the sales of securities are expected to be used primarily to refinance existing long-term and short-term debt.

Impact on Liquidity of a Downgrade in Credit Ratings. As of November 4, 2002, Moody's Investors Service, Inc. (Moody's), Standard & Poor's, a division of The McGraw Hill Companies (S&P) and Fitch, Inc. (Fitch) had assigned the following credit ratings to senior debt of CERC Corp.:

MOODY'S		S&P		FITCH	
RATING	OUTLOOK	RATING	WATCH	RATING	OUTLOOK
Ba1	Negative(1)	BBB	Negative(2)	BBB	Negative(3)

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(1) A "negative" outlook from Moody's reflects concerns over the next 12 to 18 months which will either lead to a review for a potential downgrade or a return to a stable outlook.

(2) S&P's CreditWatch "negative" indicates a potential for a downgrade within a relatively short period of time usually related to a specific event.

(3) A "negative" outlook from Fitch encompasses a one- to two-year horizon as to the likely rating direction.

We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. Any future reduction or withdrawal of one

or more of our credit ratings could have a material adverse impact on our ability to obtain short- and long-term financing, the cost of such financings and the execution of our commercial strategies.

A decline in credit ratings would increase commitment fees and borrowing costs under our existing bank facilities. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and would negatively impact our ability to complete capital market transactions.

Our bank facilities contain "material adverse change" clauses that could impact our ability to borrow under these facilities. The "material adverse change" clause in our revolving credit facility applies to new borrowings under the facility and relates to changes since the most recent financial statements delivered to the banks. Financial statements are delivered quarterly.

The $150 million receivables facility of CERC Corp. requires the maintenance of credit ratings of at least BB from S&P and Ba2 from Moody's. Receivables would need to be repurchased or receivables would cease to be sold in the event a credit rating fell below the threshold. The credit thresholds contained in the receivables facility which is expected to replace the existing facility may differ.

CenterPoint Energy Gas Resources Corp., a wholly owned subsidiary, provides comprehensive natural gas sales and services to industrial and commercial customers who are primarily located within or near the territories served by our pipelines and distribution subsidiaries. In order to hedge its exposure to natural gas prices, CenterPoint Energy Gas Resources Corp. has agreements with provisions standard to the industry that establish credit thresholds and then require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (CERC Corp. in this case), falls below those levels. The senior unsecured debt of CERC Corp. is currently rated BBB by S&P and Ba1 by Moody's. Based on these ratings, we estimate that unsecured credit limits extended to CenterPoint Energy Gas Resources Corp. by counterparties could aggregate $25 million; however, utilized credit capacity is significantly lower.

Cross Defaults. Our debentures and borrowings generally provide that a default on obligations by CenterPoint Energy does not cause a default under our debentures, revolving credit facility or receivables facility. A payment default at CERC Corp. exceeding $50 million will cause a default under CenterPoint Energy's $3.85 billion bank facility.

Pension and Postretirement Benefits Funding. We make contributions to achieve adequate funding of parent company sponsored pension and postretirement benefits in accordance with applicable regulations and rate orders. Due to the decline in current market value of the pension plan's assets, the value of the plan's assets is less than our accumulated pension benefit obligation. As a result, we may be required to record a non-cash minimum pension liability adjustment to other comprehensive income during the fourth quarter of 2002, which could be material. Recording a minimum liability adjustment will not effect our results of operations or our ability to meet any existing financial covenants related to our debt facilities. Additionally, we are not required to make any pension contributions in 2002 and 2003.

Other Factors that Could Affect Cash Requirements. In addition to the above factors, our liquidity and capital resources could be affected by:

- the need to provide cash collateral in connection with certain contracts;
- acceleration of payment dates on certain gas supply contracts under certain circumstances;
- various regulatory actions

Money Pool. We participate in a "money pool" through which we and certain of our affiliates can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money pool's net funding requirements are generally met with short-term borrowings of, and/or cash held by, CenterPoint Energy. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act.

Capitalization. Factors affecting our capitalization include:

- covenants in our bank facilities and other borrowing agreements; and
- limitations imposed on us because our parent is a registered holding company.

In connection with our parent company's registration as a public utility holding company under the 1935 Act, the SEC has limited the aggregate amount of CERC Corp.'s external borrowings to $2.7 billion, and the SEC has placed limitations on our dividends and requires that common equity as a percentage of our total capitalization must be at least 30% after the payment of such dividends.

Restructuring. Our parent company has obtained authority from its state regulators to restructure the businesses of CERC in order to satisfy the requirements for an exemption from regulation as a registered holding company under the 1935 Act. Although it is expected that this business restructuring of CERC Corp. may be completed, we can provide no assurance that it will, in fact, occur, or that our parent will be exempt from registration under the 1935 Act.

Relationship with CenterPoint Energy. We are a wholly-owned subsidiary of CenterPoint Energy. As a result of this relationship, the financial condition and liquidity of our parent company could affect our access to capital, our credit standing and our financial condition.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations" (SFAS No. 141). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. We adopted the provisions of the statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002. The adoption of SFAS No. 141 did not have a material impact on our historical results of operations or financial position.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of a liability for an asset retirement legal obligation to be recognized in the period in which it is incurred. When the liability is initially recorded, associated costs are capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. We plan to adopt SFAS No. 143 on January 1, 2003, and are in the process of determining the effect of adoption on our consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 did not materially change the methods we use to measure impairment losses on long-lived assets, but may result in more future dispositions being reported as discontinued operations than would previously have been permitted. We adopted SFAS No. 144 on January 1, 2002.

See Note 3 for a discussion of our adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133) on January 1, 2001. See Note 6 for a discussion of our adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142) on January 1, 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. We have applied this guidance prospectively.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for costs associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. We will apply the provisions of SFAS No. 146 to all exit or disposal activities initiated after December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings. Subsequent to the date of their evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect the internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting CERC, please review Note 11 to CERC's Interim Financial Statements, Item 3 of the RERC Corp. Form 10-K/A and Note 10 to the RERC Corp. 10-K/A Notes, which are incorporated herein by reference.

ITEM 5. OTHER INFORMATION.

Forward-Looking Statements. From time to time, CERC Corp. makes statements concerning its expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. You can generally identify the forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should," "will," "forecast," "goal," "objective," "projection," or other similar words.

CERC Corp. has based its forward-looking statements on its management's beliefs and assumptions based on information available to its management at the time the statements are made. CERC Corp. cautions you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, CERC Corp. cannot assure you that actual results will not differ materially from those expressed or implied by its forward-looking statements.

The following are some of the factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements:

- state and federal legislative and regulatory actions or developments, constraints placed on our activities or business by the Public Utility Holding Company Act of 1935, changes in or application of environmental and other laws or regulations applicable to other aspects of our business;

- the successful and timely completion of our capital projects;

- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;

- our pursuit of potential business strategies, including acquisitions or disposition of assets;

- changes in business strategy or development plans;

- changes in interest rates or rates of inflation;

- unanticipated changes in operating expenses and capital expenditures;

- weather variations and other natural phenomena;

- the timing and extent of changes in commodity prices, particularly natural gas;

- commercial bank and financial market conditions, our access to capital, the costs of such capital and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets for transmission and distribution companies;

- actions by rating agencies;

- legal and administrative proceedings and settlements;

- changes in tax laws;

- o inability of various counterparties to meet their obligations with respect to our financial instruments;

- o any lack of effectiveness of our disclosure controls and procedures;

- o changes in technology;

- o significant changes in our relationship with our employees, including the availability of qualified personnel and the potential adverse effects if labor disputes or grievances were to occur;

- o acts of terrorism or war, including any direct or indirect effect on our business resulting from terrorist attacks such as occurred on September 11, 2001 or any similar incidents or responses to those incidents;

- o the availability and price of insurance;

- o political, legal regulatory and economic conditions and developments in the United States; and

- o other factors we discuss in the RERC Corp. Form 10-K/A, including those outlined in "Management's Narrative Analysis of Results of Operations of Reliant Energy Resources Corp. and its Consolidated Subsidiaries -- Certain Factors Affecting Our Future Earnings."

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and CERC Corp. undertakes no obligation to publicly update or revise any forward-looking statements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing as indicated.

Report or
Registration
SEC File or
Exhibit
Number
Description
Statement
Registration
Number
Exhibit
References -

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----- 4(a)
Third
Supplemental
Form 8-K12B
of CNP 1-
31447 4(h)
Indenture
dated as
dated August
31, of August
31, 2002 2002
and filed
among
CenterPoint
with the SEC
on Energy,
Inc. ("CNP"),
September 6,
2002 Reliant
Energy,

Incorporated
("REI"),
Reliant
Energy
Resources
Corp.
("RERC") and
The Bank of
New York
(supplementing
the Indenture
dated as of
June 15, 1996
under which
RERC's 6.25%
Convertible
Junior
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Debentures
were issued)
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Form 8-K12B
dated 1-31447
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dated as
August 31,
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with the SEC
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September 6,
RERC and
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Report or Registration SEC File or Exhibit Number Description Statement Registration Number Exhibit References -

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Subordinated Debentures due 2012 were issued) +99 Items incorporated by reference from the RERC Corp. Form 10-K/A: Item 1, "Our Business -- Status of Business Separation," Item 3 "Legal Proceedings," Item 7 "Management's Narrative Analysis of the Results of Operations of Reliant Energy Resources Corp. and its Consolidated Subsidiaries -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of RERC Operations" and Notes 3(f) (Regulatory Assets), 5 (Derivative Instruments), 7 (Trust Preferred Securities), 10 (Commitments and Contingencies) and 13 (Reportable Segments).

(b) Reports on Form 8-K.

On August 14, 2002, we filed a Current Report on Form 8-K dated August 14,

2002, furnishing certifications of our financial statements by our Chief Executive Officer and Chief Financial Officer related to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

On September 3, 2002, we filed a Current Report on Form 8-K dated August 31, 2002, to announce the restructuring of Reliant Energy, Incorporated.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTERPOINT ENERGY RESOURCES CORP.

By: /s/ James S. Brian

James S. Brian
Senior Vice President and
Chief Accounting Officer

Date: November 14, 2002

CERTIFICATIONS

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Resources Corp.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

By: /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Resources Corp.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

By: /s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

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EXHIBIT 99

ITEM 1. BUSINESS.

OUR BUSINESS

STATUS OF BUSINESS SEPARATION

Reliant Energy filed its initial business separation plan with the Public Utility Commission of Texas (Texas Utility Commission) in January 2000 and filed amended plans in April 2000 and August 2000. In December 2000, the Texas Utility Commission approved Reliant Energy's amended business separation plan (Business Separation Plan) providing for the separation of Reliant Energy's generation, transmission and distribution, and retail operations into three different companies and for the separation of Reliant Energy's regulated and unregulated businesses into two unaffiliated publicly traded companies. In December 2000, Reliant Energy transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources) which, at the time, was a wholly owned subsidiary. In addition, in a merger, RERC transferred the businesses conducted by Reliant Energy Services, Inc. (Reliant Energy Services), which was a wholly owned subsidiary of RERC's, to Reliant Resources in December 2000. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger by which the following will occur (which we refer to as the Restructuring):

- CenterPoint Energy, Inc. (CenterPoint Energy), currently a wholly owned subsidiary of Reliant Energy, will become the holding company for Reliant Energy and its subsidiaries;

- Reliant Energy and its subsidiaries will become subsidiaries of CenterPoint Energy; and

- each share of Reliant Energy common stock will be converted into one share of CenterPoint Energy common stock.

After the Restructuring, Reliant Energy plans, subject to further corporate approvals, market and other conditions, to complete the separation of its regulated and unregulated businesses by distributing the shares of common stock of Reliant Resources that CenterPoint Energy will then own to its shareholders (Distribution). Reliant Energy's goal is to complete the Restructuring and subsequent Distribution as quickly as possible after all the necessary conditions are fulfilled, including receipt of an order from the SEC granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act) and an extension from the IRS for a private letter ruling Reliant Energy has obtained regarding the tax-free treatment of the Distribution. Although receipt or timing of regulatory approvals cannot be assured, Reliant Energy believes it meets the standards for such approvals. Reliant Energy currently expects to complete the Restructuring and Distribution in the summer of 2002.

Following the Restructuring, CenterPoint Energy will be a utility holding company under the 1935 Act and as such will be required to register under the 1935 Act unless it qualifies for an exemption. In order to enable CenterPoint Energy to comply with the requirements in the exemption in Section 3(a)(1) of the 1935 Act, Reliant Energy plans to divide the gas distribution businesses conducted by RERC Corp.'s three unincorporated divisions, Reliant Energy Entex (Entex), Reliant Energy Arkla (Arkla) and Reliant Energy Minnegasco (Minnegasco), among three separate business entities. For more information regarding Reliant Energy's application under the 1935 Act and regulation under the 1935 Act, please read "Regulation--Public Utility Holding Company Act of 1935" in Item 1 of this Form 10-K. The entity that will hold the Entex assets will also hold RERC Corp.'s natural gas pipelines and gathering businesses. For more information regarding RERC Corp.'s divisions and their operations, please read "Natural Gas Distribution" and "Pipelines and Gathering" in Item 1 of this Form 10-K. In addition to regulatory approvals Reliant Energy has obtained, this restructuring will require approval of the public service commissions of Louisiana, Oklahoma and Arkansas.

For additional information regarding the Restructuring, the Distribution and the RERC Corp. separation described above, please read Note 2 to our consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS.

For a description of certain legal and regulatory proceedings affecting us, see Notes 10(c) and 10(d) to our consolidated financial statements, which notes are incorporated herein by reference.

ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF RELIANT ENERGY RESOURCES CORP. AND ITS CONSOLIDATED SUBSIDIARIES.

CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

Our past earnings are not necessarily indicative of our future earnings and results of operations. The magnitude of our future earnings and results of our operations will depend on numerous factors including:

- state, federal and international legislative and regulatory developments and changes in or application of environmental and other laws and regulations to which we are subject and changes in or application of laws or regulations applicable to other aspects of our business;
- the timing of the implementation of our parent company's Business Separation Plan;
- the effects of competition, including the extent and timing of the entry of additional competitors in our markets;
- liquidity concerns in our markets;
- industrial, commercial and residential growth in our service territories;
- our pursuit of potential business strategies, including acquisitions or dispositions;
- state, federal and other rate regulations in the United States;
- the timing and extent of changes in interest rates and commodity prices, particularly natural gas;
- weather variations and other natural phenomena;
- our ability to cost-effectively finance and refinance;
- financial market conditions, our access to capital and the results of our financing efforts;
- the credit worthiness or bankruptcy or other financial distress of our trading, marketing and risk management services counterparties;
- actions by rating agencies with respect to us or our competitors;
- acts of terrorism or war;
- the availability and price of insurance; and
- political, legal, regulatory and economic conditions and developments in the United States.

In order to adapt to the increasingly competitive environment in our industry, we continue to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties and dispositions of currently owned businesses.

FACTORS AFFECTING THE RESULTS OF RERC OPERATIONS

Natural Gas Distribution. Our Natural Gas Distribution business segment competes primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other gas distributors and marketers also compete directly with our Natural Gas Distribution business segment for gas sales to end-users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass our Natural Gas Distribution business segment's facilities and market, sell and/or transport natural gas directly to commercial and industrial customers.

Generally, the regulations of the states in which our Natural Gas Distribution business segment operates allow us to pass through changes in the costs of natural gas to our customers through purchased gas adjustment provisions in rates. There is, however, an inherent timing difference between our purchases of natural gas and the ultimate recovery of these costs. Consequently, we may incur additional "carrying" costs as a result of this timing difference and the resulting, temporary under-recovery of our purchased gas costs. To a large extent, these additional carrying costs are not recovered from our customers.

On November 21, 2001, Arkla filed a rate case (Docket 01-243-U) with the Arkansas Public Service Commission seeking an increase in rates for its Arkansas customers of approximately $47 million on an annual basis. Arkla's last rate increase was authorized in 1995. In the rate filing, Arkla maintains that its rate base has grown by $183 million, and its operating expenses have increased from $93 million to $106 million on an annual basis and, therefore, Arkla's current rates for service to Arkansas customers do not provide a reasonable opportunity for Arkla to cover its operating costs and earn a fair return on its investment. A decision in the case is expected in the fall of 2002.

Pipelines and Gathering. Our Pipelines and Gathering business segment competes with other interstate and intrastate pipelines in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service. Our Pipelines and Gathering business segment competes indirectly with other forms of energy available to its customers, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability of energy and pipeline capacity, the level of business activity, conservation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in areas we serve and the level of competition for transportation and storage services. Since FERC Order No. 636, REGT's and MRT's commodity sales activity has been minimal. Commodity transactions are usually related to system management activity which we have been able to manage with little exposure. We have not been nor do we anticipate being negatively impacted by higher price levels and the tightening of supply experienced in the fourth quarter of 2000 and the first quarter of 2001. In addition, competition for our gathering operations is impacted by commodity pricing levels in its markets because these prices influence the level of drilling activity in those markets.

Natural Gas Pipeline Company of America has proposed, and is soliciting customers for a 30" pipeline paralleling MRT's East Line in Illinois to a point 17 miles east of St. Louis Metro, with a proposed in-service date of June 2002. This service would represent an alternative to that provided by MRT. MRT has renewed or is engaged in negotiations to renew service agreements under multi-year terms, including service and potential expansion needs along MRT's existing East Line in Illinois. Our Pipelines and Gathering business segment derives approximately 14% of its revenues from Laclede Gas Company, which has an annual evergreen term provision. In February 2002, MRT negotiated an agreement to extend its existing service relationship with Laclede for a five year period subject to acceptance by the FERC. However, the Pipeline and Gathering business segment's financial results could be materially adversely affected after this five year period if Laclede decides to engage another pipeline for the transportation services currently provided by the Pipeline and Gathering business segment.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(f) Regulatory Assets.

RERC applies the accounting policies established in SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) to the accounts of the utility operations of Natural Gas Distribution and MRT. As of December 31, 2000 and 2001, RERC had recorded $5 million and $3 million, respectively, of net regulatory assets.

If, as a result of changes in regulation or competition, RERC's ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, "Regulated Enterprises Accounting for the Discontinuation of Application of SFAS No. 71" (SFAS No. 101) and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS No. 121), RERC would be required to write off or write down these regulatory assets and liabilities. In addition, RERC would be required to determine any impairment to the carrying costs of plant and inventory assets.

(5) DERIVATIVE INSTRUMENTS

Effective January 1, 2001, RERC adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended (SFAS No. 133), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement requires that derivatives be recognized at fair value in the balance sheet and that changes in fair value be recognized either currently in earnings or deferred as a component of other comprehensive income, depending on the intended use of the derivative instrument as hedging (a) the exposure to changes in the fair value of an asset or liability (Fair Value Hedge) or (b) the exposure to variability in expected future cash flows (Cash Flow Hedge) or (c) the foreign currency exposure of a net investment in a foreign operation. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs.

Adoption of SFAS No. 133 on January 1, 2001 resulted in a cumulative after-tax increase in accumulated other comprehensive income of $38 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by approximately $88 million, $5 million, $53 million and $2 million, respectively, in RERC's Consolidated Balance Sheet. During the year ended December 31, 2001, $34 million of the initial after-tax transition adjustment recognized in other comprehensive income was recognized in net income.

During the third quarter of 2001, the FASB cleared an issue related to application of the normal purchases and normal sales exception to contracts that combine forward and purchased option contracts. The effective date of this guidance is April 1, 2002, and RERC is currently assessing the impact of this cleared issue and does not believe it will have a material impact on RERC's consolidated financial statements.

RERC is exposed to various market risks. These risks are inherent in RERC's consolidated financial statements and arise from transactions entered into in the normal course of business. RERC utilizes derivative financial instruments such as physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes and cash flows of its natural gas on its operating results and cash flows.

(a) Non-Trading Activities.

Cash Flow Hedges. To reduce the risk from market fluctuations in revenues and the resulting cash flows derived from the sale of natural gas, RERC may enter into Energy Derivatives in order to hedge certain expected purchases and sales of natural gas (Non-trading Energy Derivatives). In 2001 these transactions were entered into with Reliant Energy Services, an affiliated company (See Note 2). The Non-trading Energy Derivative portfolios are managed to complement the physical transaction portfolio, reducing overall risks within authorized limits.

RERC applies hedge accounting for its Non-trading Energy Derivatives utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being hedged. This correlation, a measure of hedge effectiveness, is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% to 120% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied. During 2001, the amount of hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as Cash Flow Hedges was immaterial. No component of the derivative instruments' loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, RERC realizes in net income the deferred gains and losses recognized in accumulated other comprehensive loss. During the year ended December 31, 2001, there was a $3.6 million deferred loss recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur due to credit problems of a customer. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive loss is reclassified and included in RERC's Statements of Consolidated Income under the caption "Natural Gas and Purchased Power." Cash flows resulting from these transactions in Non-trading Energy Derivatives are included in the Statements of Consolidated Cash Flows in the same category as the item being hedged. As of December 31, 2001, RERC's current non-trading derivative assets and liabilities and corresponding amounts in accumulated other comprehensive gain or loss were expected to be reclassified into net income during the next twelve months.

The maximum length of time RERC is hedging its exposure to the variability in future cash flows for forecasted transactions on existing financial instruments is primarily two years with a limited amount of exposure up to three years. RERC's policy is not to exceed five years in hedging its exposure.

(b) Energy Trading, Marketing and Price Risk Management Activities.

During 2000 and in prior years, RERC offered energy, price risk management services through a subsidiary, Reliant Energy Services. In December 2000, Reliant Energy Services was transferred to an affiliated company. Reliant Energy Services offered energy price risk management services primarily related to natural gas, electric power and other energy related commodities. Reliant Energy Services provided these services by utilizing a variety of derivative financial instruments, including (a) fixed and variable-priced physical forward contracts, (b) fixed and variable-priced swap agreements, (c) options traded in the over-the-counter financial markets and (d) exchange-traded energy futures and option contracts (Trading Derivatives). Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between industry pricing publications or exchange quotations.

RERC applied mark-to-market accounting for all of its energy trading, marketing and price risk management operations. Accordingly, these Trading Derivatives were recorded at fair value with realized and unrealized gains (losses) recorded as a component of revenues prior to the Merger. There were no recognized, unrealized balances (energy trading, marketing and price risk management assets/liabilities) as of December 31, 2000 and 2001.

(c) Credit Risks.

In addition to the risk associated with price movements, credit risk is also inherent in RERC's non-trading derivative activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. RERC enters into financial transactions to hedge purchases and sales with Reliant Energy Services as the counterparty since December 2000. Reliant Energy Services, an affiliated company, enters into financial transactions with unaffiliated parties to complete the hedge transaction and assumes the risk of loss from unaffiliated parties. As of December 31, 2001, the counterparty for all of RERC's non-trading derivative assets and liabilities was Reliant Energy Services.

(d) Trading and Non-trading - General Policy.

Reliant Energy has established a Risk Oversight Committee comprised of corporate and business segment officers that oversees all commodity price and credit risk activities, including Reliant Energy's trading, marketing, risk management services and hedging activities. The committee's duties are to establish Reliant Energy's commodity risk policies, allocate risk capital within limits established by Reliant Energy's board of directors, approve trading of new products and commodities, monitor risk positions and ensure compliance with Reliant Energy's risk management policies and procedures and trading limits established by Reliant Energy's board of directors.

Reliant Energy's policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

(7) TRUST PREFERRED SECURITIES

In June 1996, a Delaware statutory business trust created by RERC Corp. (RERC Trust) issued $173 million aggregate amount of convertible preferred securities to the public. RERC Corp. accounts for RERC Trust as a wholly owned consolidated subsidiary. RERC Trust used the proceeds of the offering to purchase convertible junior subordinated debentures issued by RERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities. The convertible junior subordinated debentures represent RERC Trust's sole assets and its entire operations. RERC Corp. considers its obligation under the Amended and Restated Declaration of Trust, Indenture and Guaranty Agreement relating to the convertible preferred securities, taken together, to constitute a full and unconditional guarantee by RERC Corp. of RERC Trust's obligations with respect to the convertible preferred securities.

The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Each convertible preferred security is convertible at the option of the holder into $33.62 of cash and 1.55 shares of Reliant Energy common stock. At Restructuring, each convertible preferred security is convertible into 1.55 shares of CenterPoint Energy common stock and $33.62 in cash. At Distribution, each convertible preferred security is convertible into an increased number of shares of CenterPoint Energy common stock based on a formula in the indenture governing the junior subordinated debentures and $33.62 in cash. During 2000 and 2001, convertible preferred securities of $0.3 million and $0.04 million, respectively, were converted. As of December 31, 2000 and 2001, $0.4 million liquidation amount of convertible preferred securities were outstanding. The securities, and their underlying convertible junior subordinated debentures, bear interest at 6.25% and mature in June 2026. Subject to some limitations, RERC Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, RERC Corp. may not pay dividends on its common stock to Reliant Energy. As of December 31, 2001, no interest payments on the convertible junior subordinated debentures had been deferred.

(10) COMMITMENTS AND CONTINGENCIES

(a) Capital and Environmental Commitments.

RERC has various commitments for capital and environmental expenditures. RERC anticipates investing up to $6 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance.

(b) Lease Commitments.

The following table sets forth information concerning RERC's obligations under non-cancelable long-term operating leases principally consisting of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions):

2002	$ 14
2003	12
2004	7
2005	6
2006	5
2007 and beyond	66
Total	$110

Total rental expense for all operating leases was $33 million, $33 million and $32 million in 1999, 2000 and 2001, respectively.

(b) Transportation Agreement.

Prior to the merger of a subsidiary of Reliant Energy and RERC Corp., a predecessor of Reliant Energy Services entered into a transportation agreement (ANR Agreement) with ANR Pipeline Company (ANR) that contemplated a transfer to ANR of an interest in some of RERC's pipelines and related assets. The interest represented capacity of 250 million cubic feet (Mmcf)/day. Under the ANR Agreement, an ANR affiliate advanced $125 million to RERC. Subsequently, the parties restructured the ANR Agreement and RERC refunded in 1993 and 1995, $34 million and $50 million, respectively, to ANR. RERC has agreed to reimburse Reliant Energy Services for any transportation payments made under the ANR agreement and for the refund of the $41 million. In RERC's Consolidated Balance Sheet, RERC has recorded a long-term notes payable to Reliant Energy Services of $31 million and a deferred obligation to ANR of $10 million as of December 31, 2001.

(c) Environmental Matters.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company, Inc., Reliant Energy Pipeline Services, Inc., RERC, Reliant Energy Services, and other Reliant Energy entities and third parties (Docket No. 460, 916-Div. "B"), in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented five times. As of March 11, 2002, there were 628 plaintiffs, a majority of whom are Louisiana residents who live near the Wilcox Aquifer. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts.

The suit alleges that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer which lies beneath property owned or leased by the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility." This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution. This site was originally leased and operated by predecessors of Reliant Energy Gas Transmission Company in the late 1940s and was operated until Arkansas Louisiana Gas Company ceased operations of the plant in the late 1970s.

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and in addition seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of December 31, 2001, RERC is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in this matter.

Manufactured Gas Plant Sites. RERC and its predecessors operated a manufactured gas plant (MGP) until 1960 adjacent to the Mississippi River in Minnesota formerly known as Minneapolis Gas Works (MGW). RERC has substantially completed remediation of the main site other than ongoing water monitoring and treatment. The manufactured gas was stored in separate holders. RERC is negotiating cleanup of one such holder. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, RERC believes that two were neither owned nor operated by RERC. RERC believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 2000 and 2001, RERC had accrued $18 million and $23 million, respectively, for remediation of the Minnesota sites. At December 31, 2001, the estimated range of possible remediation costs was $11 million to $49 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. RERC has received notices from the United

States Environmental Protection Agency and others regarding its status as a PRP for other sites. Based on current information, RERC has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Other Minnesota Matters. At December 31, 2000 and 2001, RERC had recorded accruals of $4 million and $5 million, respectively for other environmental matters in Minnesota for which remediation may be required. At December 31, 2001, the estimated range of possible remediation costs was $4 million to $8 million.

Mercury Contamination. RERC's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by RERC at some sites in the past, and RERC has conducted remediation at sites found to be contaminated. Although RERC is not aware of additional specific sites, it is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by RERC and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, RERC believes that the costs of any remediation of these sites will not be material to RERC's financial position, results of operations or cash flows.

Potentially Responsible Party Notifications. From time to time RERC has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Considering the information currently known about such sites and the involvement of RERC in activities at these sites, RERC does not believe that these matters will have a material adverse effect on RERC's financial position, results of operations or cash flows.

(d) Other Legal Matters.

California Wholesale Market. Reliant Energy, Reliant Energy Services (a wholly owned subsidiary of Reliant Resources), Reliant Energy Power Generation, Inc. (a wholly owned subsidiary of Reliant Resources) and several other subsidiaries of Reliant Resources, as well as three officers of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. RERC had also been named as a defendant in one of these actions. Plaintiffs have voluntarily dismissed Reliant Energy from two of the three class actions in which it was named as a defendant. Plaintiffs have also voluntarily dismissed RERC from the one action in which it was named as a defendant.

Natural Gas Measurement Lawsuits. In 1997, a suit was filed under the Federal False Claim Act against RERC, REGT and REFS alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case was consolidated, together with the other similar False Claim Act cases filed and transferred to the District of Wyoming. Motions to dismiss were denied. The defendants intend to vigorously contest this case.

In addition, RERC, REGT, REFS and MRT have been named as defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants, including certain Reliant Energy entities, for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Plaintiffs initially sued Reliant Energy Services, but that company was dismissed without prejudice on June 8, 2001. Other Reliant Energy entities that were misnamed or duplicative have also been dismissed. MRT and REFS have filed motions to dismiss for lack of personal jurisdiction and are currently responding to discovery on personal jurisdiction. All four Reliant Energy defendants have joined in a motion to dismiss.

The defendants plan to raise significant affirmative defenses based on the terms of the applicable contracts, as well as on the broad waivers and releases in take or pay settlements that were granted by the producer-sellers of natural gas who are putative class members.

Other. RERC is a party to other litigation (other than that specifically noted) which arises in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that the effects, if any, from the disposition of these matters will not have a material adverse effect on RERC's financial position, results of operations or cash flows.

(13) REPORTABLE SEGMENTS

Because RERC Corp. is a wholly owned subsidiary of Reliant Energy, RERC's determination of reportable segments considers the strategic operating units under which Reliant Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that some executive benefit costs have not been allocated to segments. RERC evaluates performance based on operating income, excluding some corporate costs not allocated to the segments. RERC accounts for intersegment sales as if the sales were to third parties, that is, at current market prices.

RERC's financial reporting segments include the following: Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy and Other Operations. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers, and some non-rate regulated retail gas marketing operations. Pipelines and Gathering includes the interstate natural gas pipeline operations and natural gas gathering and pipeline services. Reliant Energy Services was previously reported within the Wholesale Energy segment. Other Operations includes unallocated general corporate expenses and non-operating investments. During 2000, Reliant Energy transferred RERC's non-rate regulated retail gas marketing from Other Operations to Natural Gas Distribution and RERC's natural gas gathering business from Wholesale Energy to Pipelines and Gathering. On December 31, 2000, RERC Corp. transferred all of the outstanding stock of RESI, Arkla Finance and RE Europe Trading, all wholly owned subsidiaries of RERC Corp., to Reliant Resources. Also, on December 31, 2000, a wholly owned subsidiary of Reliant Resources merged with and into Reliant Energy Services, a wholly owned subsidiary of RERC Corp., with Reliant Energy Services as the surviving corporation. As a result of the Merger, Reliant Energy Services became a wholly owned subsidiary of Reliant Resources. Reportable segments from previous years have been restated to conform to the 2001 presentation. All of RERC's long-lived assets are in the United States.

Financial data for business segments and products and services are as follows:

SALES TO PIPELINES NON- NATURAL GAS AND WHOLESALE OTHER RECONCILING RERC DISTRIBUTION GATHERING ENERGY OPERATIONS ELIMINATIONS AFFILIATES CONSOLIDATED ------------ --------- --------- ---------- ----------- ---------- ------------ (IN MILLIONS) AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1999: Revenues from external customers.... $ 2,735 $ 151 $ 6,024 $ 8 $ -- $ 197 $ 9,115 Intersegment revenues............... 46 180 264 -- (490) -- -- Depreciation and amortization....... 137 53 6 3 -- -- 199 Operating income (loss)............. 159 131 27 (16) -- -- 301 Total assets........................ 3,683 2,486 2,821 404 (1,841) -- 7,553 Expenditures for additions to long-lived assets................. 206 79 3 -- -- -- 288 AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2000: Revenues from external customers.... 4,445 177 16,150 1 -- 816 21,589 Intersegment revenues............... 34 202 578 -- (814) -- -- Depreciation and amortization....... 145 55 11 3 -- -- 214 Operating income (loss)............. 121 137 86 (12) -- -- 332 Total assets........................ 4,518 2,358 -- 448 (748) -- 6,576 Expenditures for additions to long-lived assets................. 195 61 27 8 -- -- 291 AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001: Revenues from external customers.... 4,638 225 -- -- -- 181 5,044 Intersegment revenues............... 5 108 -- -- (113) -- -- Depreciation and amortization....... 147 58 -- 2 -- -- 207 Operating income (loss)............. 130 137 -- (1) -- -- 266 Total assets........................ 3,732 2,361 -- 495 (599) -- 5,989 Expenditures for additions to long-lived assets................. 209 54 -- -- -- -- 263

YEAR ENDED DECEMBER 31, ------------------------------- 1999 2000 2001 -------- -------- -------- (IN MILLIONS) RECONCILIATION OF OPERATING INCOME TO NET INCOME: Operating income .... $ 301 $ 332 $ 266 Interest expense

.... (119)
(143) (155) Other, net
.... 11 2
14 Income taxes
.... (89)
(93) (58) Loss from discontinued operations
.... (4) (24) -- -------- ------
-- -------- Net income
.... $ 100 $
74 $ 67 ======== ======== ======== REVENUES BY
PRODUCTS AND SERVICES: Retail gas sales
.... $ 2,735 $
4,358 $ 4,645 Wholesale energy and energy related
sales .... 6,221 16,961 -- Gas transport
.... 152 182
307 Energy products and services
.... 7 88 92 -------- -----
--- -------- Total
.... $
9,115 $ 21,589 $ 5,044 ======== ======== ========
REVENUES BY GEOGRAPHIC AREAS U.S.
....
$ 8,998 $ 20,539 $ 5,044 Canada
....
117 1,050 -- -------- -------- -------- Total
.... $
9,115 $ 21,589 $ 5,044 ======== ======== ========